Joint Committee on Taxation
September 30, 1985
JCX-24-85

Estimated Revenue Effects of the Tax Reform Option for Consideration by the Committee on Ways and Means for Fiscal Years 1986 - 1990

[Billions of Dollars]

Provision	1986-1990
I. Individual Income Tax Provisions	
Rate schedules (including capital gains) effective 1/1/86	-225.8
Increase ZBA, change to standard deduction	-96.7
Combine the blind and elderly exemption with the standard deduction; increase the taxpayer and dependent exemption to $1500	-73.1
Repeal second earner deduction	24.7
Revise the earned income tax credit	-13.6
Child and dependent care expenses	(2)
Repeal income averaging	8.6
Repeal tax exempt threshold for unemployment compensation	2.3
Workers' compensation and black lung benefits partially included in income	3.4
Limit exclusion of scholarships and fellowships	0.6
Repeal exclusion of prizes and awards	(1)
Limit deduction for state and local taxes (500/1000;5%)	64.9
Accelerate expiration of charitable contributions deduction for non-itemizers	2.5
Repeal deduction for special needs adoption expenses	(2)
Restrict entertainment expense deductions to 50% and deductions for business meals to 75%	
Individual	6.1
Corporate	6.9
Miscellaneous deductions - combine employee business expenses subject to a 1% of AGI floor	8.7
Limit temporary assignments to 1 year	
Individual	0.1
Deny deduction for education travel	
Individual	0.1
Corporate	(1)
Deny deduction for cruise ship seminars	
Individual	0.1
Corporate	(1)
Limit deduction for luxury water travel	
Individual	(2)
Corporate	(1)
Repeal political contribution credit	1.1
Repeal presidential campaign checkoff	0
Subtotal, Individual Income Tax Provisions	
Individual	-285.7
Corporate	6.9
Total	-278.8

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Provision	1986-1990
II. Capital Income	
Depreciation and expensing	
Individual	12.3
Corporate	49.3
Repeal ITC	
Individual	21.1
Corporate	111.7
Depreciation transition rules	
Individual	-1.0
Corporate	-9.9
ITC transition rules	
Individual	-1.9
Corporate	-16.7
Repeal 5 year amortization of trademark expenses	
Individual	(2)
Corporate	0.1
Repeal finance leasing	
Corporate	1.0
Repeal 5 year amortization of pollution control	
Corporate	(2)
Retain 5 year amortization of expenditures for rehabilitation of low-income housing	
Individual	(2)
Corporate	(2)
Repeal 50 year amortization of railroad tunnels and bores	
Corporate	(1)
Repeal expensing of certain conservation and agricultural expenditures	
Individual	1.2
Corporate	0.7
Repeal 84 month amortization, 10% credit for reforestation	
Individual	(2)
Corporate	(2)
Extend and modify the credit for research and experimentation	
Individual	-0.1
Corporate	-2.3
Modify rehabilitation tax credits	
Individual	1.8
Corporate	0.8
Repeal exclusion of Merchant Marine Capital Construction Fund	
Corporate	0.4
Oil & gas: IDCs, mining exploration, and tertiary injectants	
Individual	0.8
Corporate	5.0
Percentage depletion modifications	
Individual	2.6
Corporate	2.9
Modify treatment of royalty income	
Individual	0.4
Corporate	0
Modify capital gains treatment for timber income	

Provision	1986-1990
Individual	0.5
Corporate	0
Energy-related tax credits and other incentives	
Individual	-0.3
Corporate	-1.3
Excise	1.6
Subtotal, Capital Income	
Individual	38.7
Corporate	140.7
Excise	1.6
Total	181.0
III. Corporate Taxation; ESOPs	
Corporate rates and graduated structure (including capital gains)	
Corporate	-99.0
Modify dividends paid and received deduction modified	
Individual	(2)
Corporate	-2.1
Repeal $100/$200 dividend exclusion	
Individual	2.2
ESOP provisions	
Individual	0.1
Corporate	5.5
Subtotal, Corporate Tax; ESOPs	
Individual	2.3
Corporate	-95.6
Total	-93.3
IV. Tax Shelters	
At-risk rules	
Individual	1.2
Corporate	-1.0
Repeal deduction for nonbusiness interest other than principal home mortgages ($20,000 limitation)	
Individual	0.5
Subtotal, Tax Shelters	
Individual	1.7
Corporate	-1.0
Total	0.6
V. Minimum Tax	
Revise the alternative minimum tax for individuals (25%)	22.2
Revise corporate minimum tax	
Corporate	13.8
Subtotal, Minimum Tax	
Individual	22.2
Corporate	13.8
Total	36.0

Provision	1986-1990
VI. Foreign Tax Provisions	
Possessions tax credit	
Corporate	2.2
Other provisions affecting international income	
Corporate	9.8
Reduce Sec 911 exclusion	0.8
Tax on foreign insurers	
Excise	0.2
Subtotal, Foreign Tax Provisions	
Individual	0.8
Corporate	12.0
Excise	0.2
Total	13.1
VII. Tax Exempt Bonds	
Modify exemption for nongovernmental bonds	
Individual	5.5
Corporate	-0.4
Tighten restrictions on tax exempt bond arbitrage	
Individual	0.7
Corporate	0.1
Subtotal, Tax Exempt Bonds	
Individual	6.2
Corporate	-0.3
Total	5.9
VIII. Financial Institutions	
Modify depository institution's bad debt reserve deductions	
Corporate	5.3
Disallow interest incurred to carry tax exempts	
Individual	-3.4
Corporate	3.8
Repeal tax exemption of large credit unions	
Corporate	1.3
Repeal special carryover rules for depository institutions	
Corporate	(2)
Repeal special reorganization rules for troubled thrifts	
Corporate	1.6
Subtotal, Financial Institutions	
Individual	-3.4
Corporate	12.0
Total	8.6
IX. Accounting Issues	
Limitations on the use of the cash accounting method	
Individual	1.1
Corporate	2.7
Pledges of installment obligations	

Provision	1986-1990
Individual	1.6
Corporate	5.1
Changes in accounting for production costs	
Individual	3.7
Corporate	39.2
Limit bad debt deductions	
Individual	0.3
Corporate	5.7
Mining and solid waste reclamation costs	
Individual	0
Corporate	0
Changes in accrued vacation pay deductions	
Individual	(2)
Corporate	0.5
Repeal special rules for returns of magazines, etc. and qualified discounts coupons	
Corporate	0.2
Corporate credit reordering	1.3
Subtotal, Accounting Issues	
Individual	6.7
Corporate	54.7
Total	61.4
X. Insurance Products and Companies	
Exclusion of inside buildup (DELETE)	0
Policyholder loans and repeal of $1000 interest exclusion for surviving spouses	0.1
Other policyholder issues	(2)
Limit life insurance company provisions	
Corporate	7.4
Repeal tax exemption for certain insurance companies	2.3
Property & Casualty insurance company provisions; acquisition expenses, tax exempt income, consolidation, NOLs, accounting method	
Corporate	5.5
Repeal P&C insurance company deduction for additions to the protection against loss accounts	
Corporate	0.4
Limit deductibility of P&C dividends	
Corporate	0
Modify tax treatment of small P&C companies	
Corporate	-0.8
Subtotal, Insurance Products and Companies	
Individual	—
Corporate	15.0
Total	15.0
XI. Pensions and Deferred Compensation; Fringe Benefits	
Individual Retirement Arrangements	
Individual	(1)
Modify cash and deferred arrangements (CODAs)	

Provision	1986-1990
Individual	6.2
Unfunded deferred compensation arrangements	(2)
Modify exclusion of current annuity income	
Individual	1.2
Uniform distribution requirements	
Individual	(1)
Excise	(1)
Tax on early withdrawals	
Individual	1.3
Repeal 10 year averaging (allow 5 year post 59 1/2)	
Individual	0.6
Eliminate deferral of appreciation of employer securities	
Individual	0.3
Modify basis recovery rules	8.6
Loans under qualified plans	(2)
Modify deduction limits	
Individual	0.2
Maintain combined plan limit, Sec. 415 limits to $25,000/$75,000	
Individual	2.0
Tax on retirement distributions in excess of ceiling	
Individual	0.1
Tax on qualified plan reversions	
Corporate	0.1
Include a portion of employer provided health insurance in taxable income ($125/$300 cap)	3.0
Repeal group term life insurance	9.9
Repeal exclusion of employer provided death benefits	0.2
Exemption of group legal plans (DELETE)	0
Exemption of educational assistance (DELETE)	0
Discrimination rules for employee benefits	0.6
Subtotal, Pensions and Deferred Compensation; Fringe Benefits	
Individual	34.1
Corporate	0.1
Excise	(1)
Total	34.2
XII. Trusts and Estates	
Tax unearned income of children under 14 at parent's rate	
Individual	0.9
Tighten grantor trust rules	
Individual	0.1
Revise taxation of trusts and estates	
Individual	1.9
Subtotal, Trusts and Estates	
Individual	2.8
XIII. Compliance and Administration	
Penalties relating to information returns	
Individual	0.1
Corporate	(2)

Provision	1986-1990
Estate and gift	(1)
Excise	(1)
Failure-to-pay penalty	
Individual	1.5
Corporate	0.2
Estate and gift	0.1
Excise	(2)
Negligence and fraud penalties	
Individual	(1)
Excise	0
Penalty for over statement of pension liabilities	
Individual	(1)
Excise	(1)
Implement return-free system	0
Revise estimated tax rules	4.5
Withholding reconciliation	3.1
Subtotal, Compliance and Administration	
Individual	9.2
Corporate	0.2
Excise	(2)
Estate & Gift	0.1
Total	9.5
Total, individual items	**-164.3**
Total, corporate items, etc	**160.3**
Total change in receipts	**-3.9**

(1) Less than $5 million.
(2) Less than $50 million.

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